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Intervention Drives Dollar Down -- At Least For Now

During the last ten days of September, the value of the yen increased from Y242=$1.00 to Y216, its highest level since early December 1981. This 12 percent appreciation followed the September 22 announcement that the United States, Japan, Britain, West Germany and France would take measures to lower the value of the dollar. The appreciation of the West German mark and British

Japan's Economy Rebounds In Second Quarter

Led by brisk exports and business investment, Japan's economy in the April-June quarter recovered from its January-March pause. Gross national product grew at an inflation-adjusted annual rate of 7.9 percent, compared to just 0.8 percent during the first three months of 1985. The 4.8 percent annual growth rate recorded in the first six months is in line with the government's 4.6 percent growth forecast for FY 1985.

According to the Economic Planning Agency, external demand accounted for 4.3 percentage points of the growth in GNP in the second quarter of the calendar year. The net external sector's large contribution to growth was a result of a nearly 20 percent increase in exports and flat imports. Increased car shipments to the United States, resulting from the higher export limits established in April, and sales of consumer electronic goods to China, particularly color television sets, accounted for much of the increase in exports. Declining imports of oil and other industrial and agricultural inputs helped hold the increase in imports to only 0.4 percent. Expectations of falling prices have led Japan to delay its purchases of oil.

In contrast to external demand, domestic demand in the April-June period was rather sluggish. Personal consumption spending increased only 2.8 percent. The small 1.9 percent increase in employees' compensation led to the disappointing personal consumption figures. Growth in residential construction fell to 2.3 percent after three quarters of strong growth. One bright spot was a 22.9 percent increase in business investment, which was partly a result of the expansion in exports to the United States. For example, the automotive industry is expected to invest about 23 percent more during FY 1985 than during the previous fiscal term. Public sector spending in real terms was lower in the second calendar quarter than in the previous three-month period. Government investment declined for the third consecutive quarter, while current expenditures increased 3.4 percent compared to 4.3 percent in the first quarter of calendar 1985.

It is clear that Japan's economic growth remains dependent on exports. But with exports beginning to slow, an expansion of domestic demand may be necessary to maintain economic growth at an acceptable level. There are several indications, however, that domestic demand is also slowing down. New housing starts in both July and August fell below the 1.2 million-unit annual rate for the first time since September 1984. In addition, household spending in July showed little change, increasing only 0.1 percent in real terms from a year earlier.

The prospects of weak foreign and domestic demand have increased the pressure on the government to adopt a more stimulative fiscal policy. Measures to expand domestic demand are expected to be announced this month. Both the Ministry of International Trade and Industry and the Ministry of Construction have floated proposals to increase social infrastructure investment (see JEI Report No. 33B, August 30, 1985).

Randall S. Jones

Japan's Real Gross National Product at Constant (1975) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1983	FY 1984	July-September 1984	October-December 1984	January-March 1985	April-May 1985
Gross National Product	Y213,584.3 (3.9%)	Y225,854.1 (5.7%)	Y223,366.6 (2.6%)	Y228,719.4 (9.9%)	Y229,186.6 (0.8%)	Y233,560.6 (7.9%)
Personal Consumption Spending	111,516.1 (3.1%)	114,422.4 (2.6%)	114,054.3 (2.6%)	114,550.5 (1.8%)	115,612.9 (3.8%)	116,401.3 (2.8%)
Private Residential Construction	9,865.8 (-8.7%)	10,061.8 (2.0%)	9,965.3 (5.8%)	10,198.7 (9.7%)	10,313.3 (4.6%)	10,373.0 (2.3%)
Private Fixed Nonresidential Investment	37,230.3 (5.4%)	41,333.5 (11.0%)	40,658.3 (10.2%)	42,311.4 (17.3%)	42,448.3 (1.3%)	44,693.1 (22.9%)
Change in Business Inventories	977.6 (-26.5%)	1,400.5 (43.3%)	1,485.9 (173.7%)	1,297.2 (-72.2%)	1,671.1 (75.4%)	1,443.1 (-66.8%)
Government Current Expenditures	19,872.1 (3.3%)	20,318.2 (2.2%)	20,270.8 (2.4%)	20,321.6 (1.0%)	20,525.8 (4.1%)	20,696.0 (3.4%)
Government Fixed Investment	18,216.7 (-1.4%)	17,999.5 (-1.2%)	18,504.7 (3.0%)	17,935.6 (-12.9%)	17,323.1 (-14.4%)	16,171.8 (-29.4%)
Change in Government Inventories	-238.9 (*)	119.2 (*)	488.0 (*)	-47.5 (*)	13.9 (*)	102.1 (*)
Net External Sector	16,144.6 (28.9%)	20,198.9 (25.1%)	17,939.3 (-37.4%)	22,151.9 (132.5%)	21,278.2 (-16.7%)	23,680.2 (53.4%)
Exports of Goods and Services and Factor Income Received	44,059.6 (9.2%)	51,265.5 (16.4%)	50,166.9 (5.8%)	53,083.2 (25.4%)	52,385.9 (-5.4%)	54,817.8 (19.9%)
Imports of Goods and Services and Factor Income Paid	27,915.0 (0.3%)	31,066.6 (11.3%)	32,227.6 (32.5%)	30,931.3 (-17.1%)	31,107.7 (2.3%)	31,137.6 (0.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency